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SUBJECT: GAZPROM IN SERBIA - BUYING UP THE WORKS?

REFTEL: Belgrade 1376

SUMMARY

¶1. (U) Russia's Gazprom is making a push to control Serbia's key energy companies and infrastructure. During an October 9 visit, Gazprom CEO, Alexei Miller linked three major energy projects in Serbia -- a new gas pipeline, a gas storage facility and perhaps a deal involving 51% ownership of the Serbian Oil Industry (NIS). The Serbian government has both publicly downplayed the significance of Miller's comments, and been unforthcoming about the nature of discussions with Miller in discussions with Embassy officials. Russian support for Serbia over the Kosovo issue is probably a key factor in increased Serbian support for Gazprom's plans in the region. End Summary.

Gazprom Visits Serbia

¶2. (U) During his October 9 visit, Gazprom CEO Alexei Miller outlined the company's desire to purchase or otherwise control Serbian energy assets including Serbian state oil company NIS, the Banatski Dvor gas storage facility and a possible gas pipeline to Western Europe via Serbia. In a televised interview on state-owned RTS Miller said that he viewed NIS, Banatski Dvor, and the transit pipeline as linked projects that Gazprom would want to pursue jointly. Miller's public candor about Gazprom's intentions contrasted with the Serbian government's comments on the discussions. The Prime Minister's office stuck to generic language about energy playing a significant role in economic development and the importance of the MOU signed in December 2006 supporting the idea of a gas transit pipeline through Serbia in its statement following the meeting with Miller.

¶3. (SBU) Linking these three significant energy projects would give Gazprom unprecedented control over the energy infrastructure in Serbia and the Western Balkans. Serbia currently relies on one gas pipeline connection from Hungary, controlled by the Hungarian company MOL, but supplied with Gazprom gas. The Banatski Dvor gas storage facility is an attempt to build internal gas reserves so that Serbia can meet its own seasonal demands for gas, which are greater than the pipeline capacity in very cold weather. The storage facility would also provide a cushion against supply shortages or disruptions. Serbijagas Director Milos Milankovic told embassy officials on October 12, the Serbian gas company had tried to solicit bids for additional gas to cover winter shortages and begin to fill the still under construction storage facility. Milankovic believed Miller's visit was an effort to discourage Serbia from soliciting bids without Gazprom's participation.

Energy Minister Popovic Denies a Deal

14. (SBU) During an October 16 meeting with the DCM and visiting SCE Director Chris Hoh, Energy Minister Aleksandar Popovic referred to Serbia's discussions with Gazprom as "inconclusive." In response to DCM's comment that Miller never came to town unless he was ready to sign a deal, Popovic shrugged saying "that's what I thought too, but as it turns out he had nothing concrete to offer." Popovic again said that he supported the strategy of moving ahead with privatization of a portion of NIS quickly, but that the details regarding what percentage to sell and how was now a political decision. Popovic told the DCM there were two alternatives on the table and he could argue in favor of either of them. One alternative would be to sell up to 37.5% of the company to non-Serbian entities and the other was to sell 51% or more. Popovic admitted that the 37.5% solution would be the more politically popular alternative but said the 51% option obviously made NIS more attractive to a "foreign investor."

15. (SBU) Popovic also obfuscated on the goal of the Bantski Dvor gas storage facility during the same meeting, saying it would be "in support of" a Nabucco gas pipeline through Bulgaria and Romania. "We are in negotiations with the Romanians to build a spur from any eventual Nabucco pipeline and we could augment the plan through our storage facility." Popovic said this alternative also could accrue transit fee income for Serbia. Romanian DCM Alexandru Muresan earlier told DCM at a reception on September 12 that until the early 1990's building a gas pipeline had been a constant feature of the bilateral agenda, but that the Serbs stopped mentioning it "in 1994," and had not raised it since. Press following the Miller visit clearly linked the Banaski Dvor project to the alternative Gazprom pipeline project through Serbia.

NIS - A Political Challenge

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16. (SBU). The NIS privatization has been stalled since before the January 2007 elections, as politics and the continued revenues and jobs for politically connected persons have slowed progress on privatization across the board. The current plan, to sell off 37.5% (a minority share of 25% plus an additional 12.5% investment by the purchaser) to a strategic partner, with an offer of management control, is not likely to attract a large number of bidders. NIS requires significant investments to make it competitive with refineries in the region. Currently, NIS survives only because of the Serbian ban on imported gasoline. In the current environment, and with only a third of the company likely to be offered to the buyer, Gazprom is looking to buy the company cheaply and without significant competition. A Serbian businessman recently commented to Econoff that NIS is unlikely to be privatized before Kosovo is settled as the Serbian government is worried that any misstep in the NIS privatization from Gazprom's perspective could weaken Russia resolve to support Serbia on Kosovo.

Comment

17. (SBU) Russia and Gazprom are using the political capital of Russia's support for Serbia in Kosovo to bolster Russian influence in the energy sector. Miller's visit to Belgrade was one more step in Gazprom's effort to link Serbia exclusively with Russian gas. While the Serbian government continues to maintain publicly that it is committed to a fair and transparent tender process for NIS at some point, Popovic's obfuscations to embassy officials on the subject show the government's inclination to keep the process murky.
End Comment.

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